

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: July 21, 2020**

Request to Approve Resolution to Issue Refunding Revenue Bonds

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Project Location:	Applicant: American Water Capital Corp. and/or its affiliates	Amount Requested: \$35,000,000
	Various Locations in Monterey and Sacramento Counties	Application No.: 835
		Final Resolution No.: 20-01-599
		Prior Actions: IR 10-06 approved 4-28-10, FR 503 approved 7-28-10, Bonds issued 8/18/2010

Summary. American Water Capital Corp. (the “Applicant”) requests approval of a Final Resolution to issue refunding revenue bonds in an amount not to exceed \$35,000,000 to refund previously issued Series 2010 Bonds (American Water Capital Corp. Project).

Borrower. American Water Capital Corp. was incorporated in Delaware on May 11, 2000. American Water Works Company, Inc., publicly traded on the New York Stock Exchange as AWK, holds all of the common stock of American Water Capital Corp. as well as California-American Water Company, which owns and operates the project financed with the Series 2010 Bonds (the “Operating Company”).

Legal Questionnaire. The Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status Questionnaire portion of the Application. No information was disclosed in the Legal Status Questionnaire portion of the Application that raises questions concerning the financial viability or legal integrity of this Applicant.

Prior Action and Financings. Prior actions and financings are listed below.

Description	Date of Bond Issue	Original Amount	Amount Outstanding as of 6/16/2020
American Water Capital Corp. Series 2010	8/18/2010	\$35,000,000	\$35,000,000
TOTAL:		\$35,000,000	\$35,000,000

Current Request. American Water Capital Corp. is seeking approval to refund Series 2010 Bonds in an amount not to exceed \$35,000,000. The proceeds from the Series 2010 Bonds were used to finance the following projects:

Monterey County

- The Seaside Basin Aquifer Storage and Recovery (ASR) Project includes two ASR facilities and various conveyance components (pipelines, tanks and booster stations) that are part of the long-term source of water supply solution for the Monterey Peninsula, at an

approximate cost of \$21,000,000. The ASR facilities inject freshwater into the aquifer during certain times of the year, which helps prevent the amount of seawater intrusion. The conveyance facilities allow for the transfer of water within the Monterey system to help transfer excess winter flows from the Carmel River to the Seaside Basin for ASR injection purposes and to help transfer groundwater stored and extracted in the aquifer within the greater Monterey system. This transfer of the groundwater helps to meet customer demands during the dry summer months. Another two ASR facilities are planned for the future.

- The Seaside Mains Replacement Project was a small main replacement program for an existing water distribution system to update older, small diameter, thin-walled steel mains that had begun to experience a high frequency of leakage and breaks. 55,100 linear feet serving 1,350 service lines were replaced at a cost of approximately \$12,800,000.

Sacramento County

- The Meter Retrofit/Conversion Program was a major multi-year effort to install meters for those customers who received water services through a flat rate, unmetered service which was completed in 2013. As required by state law, water meters were installed at 42,740 homes in the Operating Company's 10 Sacramento area water systems at a total cost of \$40,000,000. Water meters have helped reduce water consumption by more than 20 percent and are expected to save 141 million gallons per month or 1.7 billion gallons annually in the Operating Company's Sacramento water systems.
- The Well Rehabilitation Program and the Water Treatment Improvement Program are two long-term projects to rehabilitate and improve, on an ongoing systematic basis, over 100 existing wells located across nine service areas in the Sacramento District. Under the two programs, the Operating Company undertakes above ground and below ground inspections, cleaning, rehabilitation, and equipment replacements on an annual basis. The Operating Company must rehabilitate its groundwater wells on a regular basis or risk the permanent loss of this valuable water supply. Over time, the production capabilities of groundwater wells have declined for a number of reasons, including loss of pump and motor efficiency, damage to the well casings, or damage and encrustation of the well screens. Regularly scheduled well rehabilitations can prolong the original production capacities of the wells. Implementation of these programs has reduced emergency repairs and lowered the principal operating cost for groundwater through optimization of well and pump efficiency. On-going rehabilitation during the past 10 years of approximately 50 wells at an average cost of \$1,550,000 per year has ensured that these wells are in adequate condition and that the well stations have up-to-date treatment equipment and facilities to reliably deliver water to customers.

Fees. The Applicant has paid an application fee of \$5,000 and will pay an administrative fee of up to \$65,000 at closing.

Financing Details. The Applicant anticipates issuance of negotiated tax-exempt bonds due August 1, 2040 in an initial term interest rate period of three to six years. The Applicant anticipates that the bonds will be rated A by Standard & Poor's and Baa1 by Moody's on the basis of an unsecured obligation of the Applicant. For the initial term interest rate period, the bonds will be issued in minimum denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof.

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After the initial term interest rate period, the Applicant may elect to convert the interest rate period for the bonds to a daily, weekly, index or SIFMA interest rate period or to another term interest rate period on a conversion date and, on such date the bonds will be remarketed in \$5,000 or \$100,000 minimum denominations and any integral multiple of \$5,000 in excess thereof depending on the type of interest rate period; provided, however, that the bonds will be remarketed in minimum denominations of \$250,000 or any integral multiple of \$5,000 above \$250,000 if they are not rated A- or better by Standard & Poor's or Fitch or A3 or better by Moody's on the related conversion date in accordance with Authority policy and as provided in the Indenture. The target date for the financing is August 18, 2020, but this is subject to change based on market conditions.

Financing Team.

Underwriter: Wells Fargo Securities

Bond Counsel: Kutak Rock LLP

Issuer's Counsel: Office of the Attorney General

Staff Recommendation. Staff recommends approval of Resolution No. 20-01-599 for American Water Capital Corp. and/or its affiliates for an amount not to exceed \$35,000,000.

**RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
RELATING TO THE REFUNDING OF BONDS ISSUED TO
FINANCE WATER FACILITY IMPROVEMENT PROJECTS FOR
AMERICAN WATER CAPITAL CORP. AND/OR ITS AFFILIATES**

July 21, 2020

WHEREAS, the California Pollution Control Financing Authority (the “Authority”) has received the application of American Water Capital Corp. (the “Borrower”) for financial assistance to refund and retire all \$35,000,000 in principal amount of the outstanding California Pollution Control Financing Authority Water Facilities Revenue Bonds (American Water Capital Corp. Project) Series 2010 (the “Prior Bonds”); and

WHEREAS, the Prior Bonds were issued by the Authority on August 18, 2010 to finance the acquisition and construction of certain water facility improvement projects owned and/or operated by California-American Water Company, a California corporation and an affiliate of the Borrower, or by its affiliates, successors or assigns (the “Operating Company”), within the Operating Company’s service area in Sacramento and Monterey Counties, California (the “Project”); and

WHEREAS, the Borrower has requested the Authority to issue its revenue bonds in the aggregate principal amount of \$35,000,000 to refund and retire the Prior Bonds; and

WHEREAS, the proceeds of such revenue bonds will be loaned to the Borrower under a loan agreement with the Authority; and

WHEREAS, final approval of the terms of such revenue bonds and certain documents relating to such revenue bonds is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority, as follows:

Section 1. The Project constitutes a “project” and the Borrower, together with the Operating Company, is a “participating party” within the meaning of the California Pollution Control Financing Authority Act (the “Act”).

Section 2. Pursuant to the Act, revenue obligations of the Authority designated as the “California Pollution Control Financing Authority Water Facilities Refunding Revenue Bonds (American Water Capital Corp. Project) Series 2020” (the “Bonds”), or such alternate designation as may be approved by the Executive Director or Deputy Executive Director of the Authority, in an aggregate principal amount of \$35,000,000, are hereby authorized to be issued. The Bonds may be issued at one time, or from time to time, in one or more series separately or differently identified, and may be issued in a tax-exempt mode, all in accordance with the Indenture (as hereinafter

defined) as finally executed. The proceeds of the Bonds shall be used to refinance the Project and to refund and retire the Prior Bonds.

Section 3. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to sell the Bonds, at one time or from time to time on or before December 31, 2020, by negotiated sale, in a tax-exempt mode, at such price and at such interest rate or rates as she may determine, such determination to be as set forth in the Purchase Contract (as hereinafter defined).

Section 4. The following documents:

(i) a loan agreement relating to the Bonds (the “Loan Agreement”), among the Authority, the Borrower and the Operating Company;

(ii) a trust indenture relating to the Bonds (the “Indenture”), between the Authority and the trustee (the “Trustee”) named in the Term Sheet attached hereto as Exhibit A and incorporated herein (the “Term Sheet”);

(iii) a bond purchase agreement relating to the Bonds (the “Purchase Contract”), among the Authority, the Treasurer, the Borrower and the underwriter or underwriters named in the Term Sheet (the “Underwriters”); and

(iv) the preliminary official statement relating to the Bonds (the “Preliminary Official Statement”) are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein in substantial conformance with the Term Sheet as the officer(s) of the Authority executing and/or delivering the same may require or approve, such approval to be conclusively evidenced by the execution and/or delivery thereof.

Section 5. The Authority understands and agrees that pursuant to the terms of the Loan Agreement, the obligations of the Borrower may, under some circumstances, be carried out or assumed by a surviving, resulting or transferee entity, or by an affiliate of the Borrower, including without limitation the Operating Company, so long as such entity qualifies as a “participating party” as defined in the Act.

Section 6. The date, maturity date (August 1, 2040), interest rate or rates, interest payment dates, denominations, forms, registration privileges, place or places of payment, terms of redemption and other terms of the Bonds shall be as provided in the Indenture, as finally executed.

Section 7. The Underwriters are hereby authorized to distribute the Preliminary Official Statement to persons who may be interested in the purchase of the Bonds. The Underwriters are hereby directed to deliver (in a manner that complies with Securities and Exchange Commission Rule 15c2-12(b)(3), the “Rule”) a copy of the final Official Statement that constitutes a “final official statement” within the meaning of the Rule (the “Official Statement”) to all actual purchasers of the Bonds.

Section 8. The Bonds, when executed by the Chairperson of the Authority, shall be delivered to the Trustee under the Indenture for authentication by the Trustee. The Trustee is

hereby requested and directed to authenticate the Bonds by executing the Trustee's certificate of authentication appearing thereon. The Trustee is hereby requested and directed to deliver the Bonds, when duly executed and authenticated and upon payment of the purchase price thereof, to The Depository Trust Company, New York, New York, on behalf of the Underwriters in accordance with written instructions to be executed on behalf of the Authority, which instructions are hereby approved.

Section 9. Each officer of the Authority, acting alone, is hereby authorized and directed to do any and all ministerial acts that they may deem necessary or advisable in order to consummate the issuance, sale or delivery of the Bonds, and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement and the Purchase Contract and the Official Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation, any certifications, including, a tax certificate.

Section 10. The provisions of Resolution No. 19-01-001 of the Authority entitled "Resolution of the California Pollution Control Financing Authority Delegating Certain Powers and Authorizing Certain Actions Related to Bond Financings" adopted by the Authority on January 15, 2019 (the "Delegation Resolution"), apply to the documents and actions approved in this resolution. This Section 10 shall be deemed to refer to and incorporate any resolution of a similar nature adopted hereafter by the Authority which replaces or supersedes the Delegation Resolution.

Section 11. Prior to the issuance of the Bonds, the Executive Director or Deputy Executive Director of the Authority shall have received evidence that the Borrower has satisfied the requirements of Health & Safety Code section 44539, receipt of which shall be conclusively evidenced by the execution and delivery by the Authority of the Indenture.

Section 12. The Authority hereby approves and ratifies each and every action taken by its officers, agents, members and employees prior to the date hereof in furtherance of the purposes of this resolution.

Section 13. This resolution shall take effect immediately upon its passage. The adoption by the Authority of this final resolution for the Borrower shall not be referred to in any application before any government agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to construct or operate the Project.

EXHIBIT A

TERM SHEET

Name of Issue:	California Pollution Control Financing Authority Water Facilities Refunding Revenue Bonds (American Water Capital Corp. Project) Series 2020
Maximum Amount of Issue:	\$35,000,000 (tax-exempt)
Issuer:	California Pollution Control Financing Authority Sacramento, CA
Borrower:	American Water Capital Corp.
Trustee:	The Bank of New York Mellon
Underwriter(s):	Wells Fargo Securities
Bond Counsel:	Kutak Rock LLP Los Angeles, California
Maximum Bond Term:	August 1, 2040
Type of Sale:	Negotiated sale
Description of Minimum Denominations:	\$5,000 or any integral multiple thereof during any Term Interest Rate Period of one year or more and \$100,000 or any integral multiple of \$5,000 in excess thereof during any other Interest Rate Period; provided, that the Bonds will be remarketed in minimum denominations of \$250,000 or any integral multiple of \$5,000 in excess thereof on a conversion date for an Interest Rate Period if they are not rated A- or better by S&P or Fitch or A3 or better by Moody's on such date, in accordance with Authority policy and as provided in the Indenture
Financing Structure:	Term Interest Rate Period convertible to other Interest Rate Periods
Not to Exceed Interest Rate:	12%
Letter of Credit:	Permitted by bond documents but no Letter of Credit will be provided initially
Other Credit Enhancement:	Not applicable
Anticipated Bond Rating:	A (S&P) and Baa1 (Moody's)
Type of Financing:	Water furnishing facilities refunding revenue bonds